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ENERGY FOR SDAY AND SLADISLAW
COMMERCE FOR JANGLIN
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E.O. 12958: N/A
TAGS: [EMIN](#) [EINV](#) [ECON](#) [PGOV](#) [BL](#)
SUBJECT: DEADLINES COME AND GO, MUTUN TALKS CONTINUE

REF: 05 LA PAZ 2598

SUMMARY

¶1. (U) Deadlines have come and gone, but Mutun contract negotiations continue. The principal outstanding dispute centers on natural gas prices; as of February 28, the GOB and India's Jindal Steel and Power remained unable to reach agreement. Gas supplies are apparently uncertain, and communities near the Mutun iron ore deposits have initiated road blockades to pressure the government to move forward. End summary.

DID SOMEONE MENTION A DEADLINE?

¶2. (U) GOB officials have announced and subsequently failed to meet no fewer than four negotiating deadlines since mid-January, each time disappointing expectations of a finished contract to say they needed more time. The GOB and India's Jindal Steel and Power have been engaged in discussions since August 2006, when the two parties announced general agreement on the broad outlines of a joint venture contract allowing Jindal to develop Mutun, one of the world's largest iron ore deposits (reftel).

¶3. (U) The principal outstanding dispute centers on natural gas prices. Jindal has consistently demanded stiff concessions, initially proposing it pay just \$2.10 per million British thermal units (BTU), or half the then-export price of \$4.20 per million BTU. The company later revised

its offer, suggesting it pay full price for gas used in exploration and exploitation activities but insisting on a subsidized price for gas used in a proposed thermoelectric power plant; the firm based its position on existing hydrocarbons legislation, arguing that Hydrocarbons Law 3058 obliges the government to cover 50 percent of the cost of gas used in industrialization projects. When Jindal revised its offer a second time, offering to pay \$3.20 per million BTU for all gas, the GOB offered an alternative, suggesting the firm pay \$4 per million BTU for gas used in exploration activities and \$2 per million BTU for gas used in the thermoelectric power plant. As of February 28, the two sides remained deadlocked.

GAS SUPPLIES UNCERTAIN

¶4. (U) Vice Minister of Exploration and Production Guillermo Aruquipa announced, meanwhile, that domestic gas production may not meet Mutun's needs, as Bolivia currently produces only enough gas to supply domestic demand and fulfill export contracts with Brazil and Argentina. Aruquipa noted that the government could push hydrocarbons companies to develop new gas fields but acknowledged that the strategy's success was uncertain. He later implied that the problem was of little immediate concern, as Mutun would not begin production before ¶2010.

COMMUNITIES DEMAND RESOLUTION

¶5. (U) Residents of Puerto Suarez and other communities near the Mutun iron ore deposits demanded quick resolution, initiating road blockades February 26 and vowing to maintain them until the GOB signs a contract. Civic leaders disrupted road and rail transportation to Brazil and hinted at still tougher measures, including the taking of municipal buildings. Residents have demanded for months that the GOB move the project forward and called on the government to protect the thousands of jobs at stake.

COMMENT

¶6. (SBU) India's honorary consul in Bolivia assured Econoff March 1 that contract negotiations were in their final stages, but this may be an overly optimistic assessment; despite the consul's statement, it remains impossible to predict either the timing or the terms of a final contract. If the two parties do reach agreement, uncertain gas supplies and lingering doubts about Jindal's technical expertise may mean the project will go nowhere fast.

¶7. (SBU) Comment continued: It appears Jindal believed from the outset that it would receive subsidized gas, as estimates of relatively low gas prices played a key role in assuring the project's economic viability; indeed, the GOB faced opposition criticism of the original proposal's inclusion of gas subsidies. The government's willingness to play hardball with Jindal now suggests that the political pay-off of the deal is not worth the economic cost, particularly given the beneficiaries' location in the department of Santa Cruz, an opposition stronghold. End comment.
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